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THE SPECULATIVE CAPITAL (2)

ECONOFICTION DERIVATIVES, FINANCE, FINANCIAL MARKETS, HEDGE FUNDS, LIPUMA, SPECULATIVE CAPITAL

LiPuma examines in a further section the various institutions of speculative capital. The first area is commercial and investment banks speculating on the derivatives markets. These companies have in-house hedge funds that speculate on corporate capital, that is, shareholder capital, using leveraged strategies to increase shareholder value. Other players include the independent hedge funds, which benefit from the decline in long-term strategies and rising volatility in the capital markets. A relatively new player is the financial departments of large multinational corporations that are growing faster than the industrial departments and even speculating as non-banks in the money and capital markets. Then there are the companies supported by the US state, we Fannie Mae and Freddie Mac. They have huge sums of money, some of which they invest in their own hedge funds to accelerate the accumulation of their speculative capital. (Chesnais characterizes the financialization with eight points of view: 1) The multiplication of capital as intellectual property. 2) Higher capital concentration. 3) Financialization of non-financial multinationals. 4) The duplication of the credit system by the shadow banking system. 5) The automation of financial capital in relative independence from the material conditions. 6) the valorisation of the money capital which he alone attaches to the notional capital, in relative independence from the industrial production. 7) The bonding of social life through money fetishism. 8) The subordination of work to the financial system.)

Social life has become increasingly globalized in recent decades, fragmented and decentralized without the involvement of the state. Today the global order is like a derivative market, it is omnivorous insofar as it encompasses all possible forms of economy, with the circulation of financial capital as the hegemonic dimension. And speculative capital is the spearhead of global markets. On a superficial level, the circulating financial capital decouples entirely from production, but at a structural level, it also digs deeper and deeper into the processes of production and triggers crisis processes, creating a new way of producing wealth and circulate, through a transnational insurance machinery, which constantly redesigns the design and distribution of risks implemented in the circulation of capital. And this by means of a mathematical, statistical, digital apparatus and a specific form of knowledge that amounts to equating mathematics and economic reality. As a result, the financial models liquidate the point that separates the mathematical space as a platonic-ideal sphere from the social space. This is important insofar as the analysis of derivatives can not be separated from the production of knowledge and its circulation; indeed, in economic theory an objectification takes place which constructs the relational social objects as naturally occurring objects. In order to discuss the

social aspects of the financial markets, LiPuma examines the social and social institutions embodied in the dispositions of financial market players, such as hedge funds, the implicit socialities of derivatives themselves, and the social structure of trading practices. These are all objectifications of the social. The objectifications are present in socio-economic structures, which in turn are shaped by the financial markets: the derivative, the market, the logic of speculative capital, the financialization of households through debt, the emergence of risks as a social mediation, the existence of new forms temporality, an increasingly abstract form of structural violence, the dominance of circulation over production. The financial markets use all these structures, to monetize images, information, currencies and assets of all kinds. The social, organized by the socio-economic structures, is institutionally implemented in the competition of the actors. This competition refers to social status, conceptions of work, initiation rites, sensitivities and self – identity, fairness and images of emerging markets, speculative ethos, the way of life that is determined by finance, trust in others Mathematics and finally the immersion of a derivative logic naturalizing the history and the social. The more successfully speculative logic is inoculated into the habitus of market participants, the more they represent an unquestionable ensemble of points of view, generative schemas and dispositions. The first résumé might read as follows: market participants are giving themselves exactly to the markets that they themselves actively produce and reproduce through the embodiment of generative schemes embodied in their labor regimes. The construction of the social as an abstract object identified and qualified by risk reduces the social to the financialized calculus. The social is itself obscured by such analyzes, which construct the financial markets as a spectacle, as an external reality best understood when one observes the behavior of market participants in the trading of assets – behaviors that produce knowledge, that participants need to make a profitable investment in just that reality.

Finally, the financial markets are held together by asocial instrumental rationality. This is again based on the logic of abstract risk, which has crystallized in one number, that of the derivative price. The affirmative knowledge of the financial markets is condensed in the assumptions about the rational agents, in the unification of the information and the idea of the seclusion of a perfect market. For LiPuma, it is the "efficient market hypothesis," which basically represents what he calls "illusio," insofar as it serves as a prerequisite for scholastic analysis and as a breakpoint in the game in the financial markets. The Illusio refers less to theoretical inconsistencies than to certain forms of misjudgment. So LiPuma sees a structural similarity between the financial trader and the poker player, which consists in a socially generated greed, which counts only the money, and there is never a limit to the desire to continue to acquire money because this itself the means is to keep the game going. This socio-specific form of greed, which dominates the behaviors and thinking of market participants, is entirely based on the acquisition of money. There is a performative creation of the financialized subject through the permanent repetition of the act of acquiring money, driven by a deep-seated, unconscious compulsion, the appearance of which takes the form of an antisocial drive in the day-to-day practices of financial actors.

To further understand the social, it is important to consider the extraordinary gap between the economic models needed to model the market and the justifications for using those models. It is at this point the paradox to note that the financial economy, on the one hand, requires the investment and thus confirms the dependence on a set of financial models that are there to determine the risk (models that systematically embrace the forces of social insecurity) On the other hand, a performativity is needed, which is the prerequisite for the success of the models and the continuation of the markets. Thus the actions of the isolated agents are intrinsically collective. Trading in derivatives and speculation on their future value, Assuming that the agents recognize the unpredictable abstract risk are only possible for the agents themselves if they themselves take certain dispositions which in turn are related to plural forms of rationality (the maximization of profit, competitive dynamics, self-esteem, the speculative ethos, and even a certain nationalism). These dispositions, which convey every purchase and sale of derivatives and, moreover, the past with the future, are based on the relation between the organization of these dispositions, which are constitutive of the agent's habitus, and the structure of the possibilities constitutive of the financial field is at any time. The financial field and the specific markets need the cognitive and generative schemes, which the agents implement in their attempts to capture the field and the markets. The markets have a performative dimension for LiPuma that supports their inherent ritual embodied in social practices. The derivatives are thus to be understood as relational objects that function within the social imaginary of the markets. They exist only insofar as they are objectified in the practices of the agents and can also be interpreted as such. LiPuma always strives to analyze a thoroughly monetized subjectivity based on the permanent acquisition of money throughout the text. This is peculiar to the relation between the markets and the market participants who are willing to play the speculative game. What really motivates traders to invest in the game is more complex than the neoclassical definition of an agent that maximizes its utility, or the popular notion of anthropologically-based greed.

LiPuma is constantly taking up the subject of »liquidity«. Liquidity is more than just a metaphor for the monetary fluidity of the market, but rather concerns the capacity of the economy to circulate capital, ie the free-flowing circulation of money-capital is a necessary condition for the existence of the economy in the twenty-first century. Constitutive to this economy today is the circulation of speculative capital, as well as the use of new information technologies to shape and accelerate capital flows, and ultimately to advance the technologically supported production of knowledge, which market participants act speculatively and globally in their decisions, inform around the clock. Liquidity is often used as a synonym for social relations, which allow the agents to construct the collective enterprise that is the market: a market that always holds the counterparty for a contractor, a market that is homogenous and permanently provides the volatility that will allow the re-calibrations to occur necessarily for the continuation of the market. There is a necessary connection between the contingent and often unpredictable financial events and the construction of the market as a totality. The derivatives markets are necessarily dependent on liquidity. In contrast to

traditional goods such as houses and other products, derivatives have no intrinsic value, they also have no ordinary utility value. For LiPuma, they are a zero-sum bet on extrinsic income between competing parties. It is imperative that market participants rely on the liquidity available in the markets and the pricing mechanism based on non-arbitrage. In the last financial crisis, liquidity on the credit markets has almost completely evaporated within a short time. The financial institutions hoarded the capital instead of investing, fearing that their counterparties might already be insolvent and hence the pricing of derivatives could be inefficient. Even the market makers were taken by the fear that the next financial event could already indicate the insolvency of the competitors. Market participants quickly lost confidence in each other and eventually in the markets themselves. First, deleveraging of mortgage credit and related derivatives took place in the US. Lenders suffered from the accelerating accumulation of non-performing assets that made their balance sheets almost meaningless, affecting a whole range of financial institutions, from hedge funds and insurance companies to government-sponsored organizations to mutual funds, their mortgage-backed derivatives quickly lost value. The specter of bankruptcy was swift and deep insecurity took control of the financial agents and their institutions. The financial institutions did not go bankrupt because of lack of assets and lack of capital, but because of a lack of liquidity. It was and should be remembered, the invention of liquidity-based derivatives that turned even houses into financial assets. Securitization is a synthetic form of circulation that occurs through instruments based on calculating, controlling and capitalizing issues and variables such as interest rates, bankruptcies, currency risks and derivative prices. Derivatives are not anchored in production, but are grounded in circulation – in and through the flows of money, which in turn are related to liquidity. In the sphere of production, money is considered the general equivalent that measures the value of commodities, in the world of the circulation of derivatives that are realized in money, money is entirely self-reliant, with not only derivatives circulating self-referentially, but itself even the underlying is transformed into an abstract relation. As all market participants use a similar range of models,

Speculative capital has the effect of creating markets with rising volatility and higher risks. At the same time, the circulation of speculative capital achieves a degree of autonomy characterized by the invention of derivative instruments, the abstraction and transformation of uncertainty into quantifiable risks, and the proliferation of speculative capital itself. These processes are accelerating complexity and increasing connectivity, leaving financial institutions increasingly interdependent, although this is largely invisible. This “quantum interdependence,” in which the fate of the individual is tied to the fate of the collective, is also a result of the trader’s demand for ever greater liquidity. And this liquidity, in turn, allows for greater leverage, with the cost of lending based on the borrower’s perception of how easy and efficient it can be to lend or compensate for default in the event of default. If the lenders have a positive confidence in liquidity in the markets, then the costs of leveraging the transactions fall, while at the same time increasing the potential for speculative capital. And connectivity, based on the collective trust of market participants in the smooth functioning of markets, will also increase. Today, 90% of the derivatives are traded on unregulated OCT markets, which means that they are not standardized products.

In terms of time, circulatory capital perpetuates the treadmill effect. What can be rational in the short term for traders may be irrational and destructive from a systemic point of view. The structural dynamics of securitization chains are well known in other texts, resulting in the need to constantly increase the leverage of the portfolios by providing the money to finance the longer-dated higher interest rate CDO’s by borrowing short-term funds with low interest rates. This was possible during the last financial crisis, because two cycles of leverage were interrelated: the homeowners leveraged their homes as financial assets and the managers their portfolios, whereby the two markets sewn together drove through the directional dynamics in a mutually fueled instability. If every high achieved in the various financial markets represents a new plateau from which speculative capital seeks to exclude the possibility of falling profits, then precisely this leads to the crisis as a systemic error, although it is repeatedly asserted by the various insurance companies that there would be no systemic errors.

LiPuma names three factors that were key to the financial crisis: Securitization strategies were inherently tied to a period of euphoria, from mortgage lending to derivatives. Since all systems in which humans are involved are intrinsically social, the potential for mistakes that the system contains can not be reduced to individual actions or dispositions of the agents. After all, the present capital economy is tied to the treadmill effect insofar as the pressure created by competition in the financial markets push capital ever closer to its own abyss. It also creates socially collective dispositions that direct the behavior of each actor in a particular direction.

The central argument elaborated by LiPuma in the section on the temporality of speculative capital is that the derivatives markets themselves are self-referencing a temporal progression that drives the abstract risk to a level where even small market turmoil is driven can lead to a systematic collapse. The tendency to instability, which induces the crisis, thus also builds on the temporal dynamics of the markets. There is directional momentum suggesting the increasing complexity and instability of the markets that LiPuma is trying to explain with the treadmill effect. Thus, the problem of time, namely the discrepancy between the abstract time and the time of the agents, must be addressed, times that are substantially different.

Some times indicate in particular the social in the financial markets. First of all, the historical trajectors should be mentioned, since financial economics have changed dramatically in their structures since the 1970s, when it comes to the invention of new financial products, structures and forms of speculative capital, which in turn is perceived by the actors as a speculative ethos be internalized. For LiPuma, the crucial feature here is the historic rise of circulatory capital as a coevolution of speculative capital, hedge funds and other genuinely speculative investments, and derivatives driven by abstract risk. On a granular level, this

evolution involves a new form of temporality that extends beyond finance and its influence. There is a temporal dynamic in the financial markets pointing towards entropy, which indicates that crises are inherent in derivatives markets. However, the simple linear models still used by quantitative analysts can barely capture the complex and abstractities of financial markets.

After all, it is the temporality of the abstract risks that underpin and drive the financial markets. In order to generate profits in zero-sum game between two contractors (the profit of one is the loss of the other, on a microeconomic level), the direction of volatility dictated by abstract risk must be anticipated. Building on the consensus of market participants and the direction of volatility, which is influenced by certain components of the abstract risk, the profits generated in the markets depend on the prices being recalibrated in the desired direction. The actors give themselves to a narrative that tells that it is the derivatives themselves that would pay off. The derivative is identified as the agent, who makes the pricing and thus the social circumstances of the recalibration of price movements are hidden. In addition, it is ignored that the constant recalibration of the derivative takes place in the face of a flow of uncertain economic and political events. This temporal contingency can only be nullified if one assumes, so to speak, a completely pure arbitrage, but which is currently excluded from the models.

In addition to volatility or price fluctuations, time is one of the important variables that designs and defines the derivative contract. With their design, the derivative contracts are within a predefined temporal parenthesis. The financial economy reduces the temporality in the financial markets to an abstract and formal time, which is assumed to be reversible, secure, and a transhistorical logic of maximizing utility. However, this is in sharp contrast to the current practices of financial market players, which are constantly overwriting and discounting the temporality of mathematical models. Finally, LiPuma points to the temporality of jobs in financial companies. It needs to be analyzed as part of the investigation of the financial condition of the agents.

Derivative markets are inherently so fragile that their volatility often rises dramatically. Their cycles move with increasing levels of leverage (growing risks), complexity and instability. Derivatives markets are driven internally by the so-called treadmill effect, which also means that they become more and more unstable at the end of a cycle; they self-referentially create a temporal increase with increasing levels of abstract risk until the time when even small turbulences can create a systemic breakdown.

The more financial markets realize extremely high profits, the more speculative capital flows into the markets, thus fueling intense competition between financial firms, which in turn drives market participants' incentives to increase leverage. LiPuma calls this the pathological, progressive impulse of modern derivatives markets. The treadmill effect and its regulation lie at the center of the economy and the culture of financial circulation.

In October 1987, when equity markets, especially in Asia, were in free fall, LiPuma sees the treadmill effect in all its effects for the first time. He traces this effect closely on the basis of the Asian crisis: from portfolio insurance policies concluded to hedge (through options) the fall in stock prices to the collapse of liquidity in the markets (a mass of sell orders meets no demand more). The short positions should compensate for the losses on the stock markets. But as more and more futures contracts were sold, the treadmill effect began. The buyers insisted on a reduced price of the derivatives and thus increased the risk, and they hedged their long-term long-term contracts themselves by selling underlying shares. This in turn lowered security prices and initiated a new round of dynamic hedging. As stock trading subsided, stock index futures became unreadable or calculable, leaving futures contracts that were at the heart of dynamic hedging with no specific value. In such a case, restoring liquidity to the markets can only be achieved through external, that is, not market-initiated interventions.

The lure of derivatives trading is the promise that their return is much higher than that on government bonds or on investment in productive capital. As a result, more and more participants are entering the markets, increasing both the demand for derivatives and volatility through the introduction of extremely mobile speculative capital, euphemistically referred to as fast or hot money.

In these processes, copying successful strategies and ideas is a common pattern of market participants' behavior, turning a few lucrative trades into crowded trades. For individuals in the marketplace, short-term and competitive trading is perfectly rational, often copying simply the shareholder positions of such companies as Citigroup or Goldman Sachs, or high yields such as the hedge funds Green-light Capital or Citadel Mandatory Investment Group.

For the banks and financial institutions of large corporations, shareholder value is reflected in their companies' stock prices, with trajectories of those prices being recorded in quarterly reports and conferences. The decisive metric variable for the increase in shareholder value is the accelerating growth of the Revenues. This affects both the amount of assets managed by a fund manager and the rate of return of a portfolio. LiPuma sees three key characteristics for the structure of the incentive structures implicit in these processes: they are short-term, competitive, and completely saturated in monetary terms. Everything is centered around the short-term organized competition between participants in the financial field.

Today, lucrative dealings in the markets immediately attract huge flows of capital, with rising demand causing sellers to lose returns if certain market participants look for the same position. It is a feature of the financial markets that there is a time compression that makes the acceleration of trades thin the margins and returns of a company. The traders' response to this is that they increase their leverage, which in turn requires the bulk of traders to respond with the same strategies. An important point of the treadmill effect is simply that the progression of the market requires that market participants constantly increase their risk appetite. Unforeseen risks and problems can therefore lead to gigantic swings in volatility, that rock each other. These swings

in volatility are exaggerated when high-leverage hedge funds rely on long-term paper such as mortgage loans, but they have quick money to invest at short notice.

What in this context can be rational for the actors in the short term becomes a problem for the market as a whole. Financial crises are not simply consequences of accidental outbursts, as Nicholas Taleb has assumed with his "Black Swans," but they are the result of a structural tension / disruption that is inherent in financial markets. At the same time external news can accelerate the crisis processes. The duration of the decline in liquidity, in turn, corresponds to the structural vulnerability of the markets, to which the highly leveraged derivative positions, which are particularly prone to accelerated liquidation, contribute.

Central to the temporal dynamics in the financial markets is the category of risk, because this is the essence of the specific form of betting, which articulates for the speculative capital with the derivatives. And this creates a social field characterized by the need for market participants to incorporate the risk structure into their habits. The systemic risk is then indicated in the loss of confidence in the solvency of the counter-parties and is realized as a mutual restriction of liquidity. A movement is set in motion, with which the realization of a certain level of profitability becomes the basic level of the time frame to which reference will be made in the future. No matter what happens in the markets, the systemic dimension of the risk, which is related to the market as a whole can trigger a crisis. This is the *modus operandi* of finance and derivatives, inasmuch as the risk is at the same time a concrete speculative and a socially generated activity that saturates the market with its systemic cohesion. The fall in prices of derivatives during a crisis is by no means due to a wrong price issue, rather the price of the specific risk expresses the temporality of the systemic risk. The wrong pricing indicates the internal structural condition of the markets powered by the treadmill effect. In doing so, two necessary tendencies, namely the need to increase risk and the need to keep the integrity of the market together are opposed. These two opposing tendencies produce an intrinsic-structural tension that is sui generis social and at the same time lies in the logic of speculative capital itself. This immanent logic does not mean that the market must follow a linear logic and collapse systemically, but it does justify the possibility of crisis processes inherent in the financial markets.

Structurally, the temporality of financial flows focuses on short-term, indeed on the short-term, that is just possible. This is also reflected in the permanent search for speculative capital for new arbitrage opportunities, a situation in which opposing positions neutralize the risks or the time lag between the start of the derivative position and the expiration date. These mechanisms set in motion the directionality and compression of time, whether in terms of derivative positions or the attempt to exploit speculative capital as optimally as possible.

It must, therefore, be stated that time itself constitutes a form of abstract risk. Or, to put it another way, time is a ubiquitous form of risk that applies to each type of derivative. In production, actors minimize externally generated risks by extending time horizons. By contrast, an inverse set of risk conditions determines the circulation. Since each derivative has an expiration date and the time period involved does not have an external referent, time is both a source and a quantifiable dimension of the risk. For speculative capital, minimizing risk means compressing or neutralizing the effects of time, and this includes factors such as volatility, market instability, and the emergence of contingent events. But this compression of time also has a qualitative effect: speculative capital generates an end in itself via the means of connectivity, the derivative; the derivative serves as a source of profits and one's own reproduction. The resulting culture and economics of finance bring forth new social forms such as abstract risk, new technologies such as the derivation of derivatives through mathematical models and new self-referential contractual arrangements. Factors such as self-referentiality, the compression of time and the monetization of risk generate the derivative markets whose construction of time maintains no necessary relation to the markets of underlying or about the temporality of the institutions, including the financial institutions. Speculative capital, through the means of connectivity, the derivative, generates an end in itself; the derivative serves as a source of profits and one's own reproduction.

There are two different perspectives in financial theory on how to handle the future; firstly, an economic model that asserts that the uncertainty in the financial markets themselves has no future, since financial theory possesses the adequate tools and technology for effectively managing the future, and translating a future that is initially considered uncertain into a probabilistic model that effectively deals with quantified risks. The second view concerns the practical handling of the future by the agents in the financial markets. This concept is based on the habitus of the actors. Traders constantly override prices and conditions set out in the contracts in their practices, renegotiate and recalibrate the price,

The first concept, shifting the focus away from uncertainty to risk, has changed the infrastructure of theoretical knowledge over the last 40 years. Creating a speculative ethos that encourages stakeholders and institutions to take high risks is consistent with the assumption that there is some certainty about the future of the markets. The viewpoint inscribed in the economic models is that the temporality of derivative instruments is subject to scientific scrutiny because the derivatives have exact expiration dates and it is possible to predict fluctuating volatility.

The idea that the derivatives are immune to contingencies eliminates the historical and the social. However, it is the financial crises that repeatedly show that the derivatives markets are in environments of uncertainty. Uncertainty is a distilled and multivariable form, as opposed to risk as a measurable variable. But it is dismissed that the market model constructed by financial theory is identical to the model that the actors use in their practice, and that the model allows the actors to know and anticipate the future because the model is the risk mathematically correct. It is believed that there is a true price and there will always be

antagonists in the markets that buy derivatives. For LiPuma, however, there is an extraordinary discrepancy between the abstract assumptions of financial theory regarding security in the markets and traders' experiences that are quite real in the face of great uncertainty in the markets. There is therefore a confused mixture between the model that designs economic reality and the reality of the economic model. Moreover, the universe of probabilities and their relationships is itself an unknown probability. and the reality of the economic model. Moreover, the universe of probabilities and their relationships is itself an unknown probability. and the reality of the economic model. Moreover, the universe of probabilities and their relationships is itself an unknown probability.

When examining the social aspects of the financial markets, the following crucial question arises: how can a market reproduce itself through the act of replicating the derivative? The analyzes of the financial markets forget too quickly that the market is not a simple setting in which the actors execute certain transactions, but a means or a framework through which the transactions of the actors are made possible. Common financial theories presuppose a market that by its nature has an ontological integrity that transcends space and time. Ayache has challenged this orthodox view of the market. For ayache, contingent events are continuously processed in the derivatives markets, which, due to their contingency, fall into the probabilistic models, which constitute the financial mathematics of the derivatives are not accessible. The derivatives markets are therefore themselves part of the derivative pricing theory, which neglect the traditional financial theories criminally.

With the standard mathematical methods, the singular financial events can not be recorded, but only interpreted later. Derivatives traders only need probabilistic models to go beyond them. Unlike the markets hypostatized by financial theory, current markets are constantly recalibrating prices. In fact, there is no price than the spread between ask and bid. This spread must be continuously adjusted if the markets even exist and want to remain liquid: the market price is the input in every conceivable price model and not the output. Traders are continually overwriting the market in ways that models can not capture. And this "rewriting the market" is anchored in the habitus of traders, which is the inscription of the constituent that structures the constituent. By referring to Bergson, Ayache can say that the reality of the contingent event is the reality of the market. translate by Dejan Stojkovski taken from:

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